

PENSION BOARD MEETING

**Wednesday, August 13, 2014
9:00 AM – Fourth Floor Conference Room**

MEETING MINUTES

Members Present:

Bill Bruton
Anthony Coleman
Barry Echols
Philip Goldstein
Eric Lockhart

Jake King
Tim Milligan
Freddy Morgan
Jess Zerbe

Ex-Officio Members:

Shannon Barrett – Secretary – “Acting” Director, HR
Sam Lady – Finance Director

Visitors / Guests

Scott Arnwine / Ian Janecek – GAVION
Judy Burnette – Human Resources – Benefits
Jim Curtis - Finance
Jackie Deckman – Principal Financial Group
Libby Hammock – Human Resources

1. CALL TO ORDER / DECLARATION OF QUORUM

Chairperson Echols

Chairperson Echols declared a quorum and called the meeting to order at 9:06 am. He opened the meeting by welcoming Lieutenant Jake King to the Pension Board and stated that he is replacing the seat currently held by Major Danny Messimer representing the Police Department.

2. MINUTES FOR APPROVAL

Chairperson Echols

Chairperson Echols called for a motion and asked that the Board approve the past meeting minutes of May 13 & May 27, 2014.

Member Zerbe had a correction to the May 13 minutes, reference to the wording of the Motion on page 7. Member Lockhart confirmed that he voted to oppose and Member Goldstein had abstained. Chairperson Echols added that the vote was not unanimous but was approved. The motion was restated to read:

Member Zerbe made the motion to approve for review a 7.5% investment rate funding for the Experience Study to be prepared by Cavanaugh MacDonald consulting, LLC.

MOTION:

05.13.14 – Meeting Minutes

MOTION: Member Zerbe made the motion to approve the 05.13.14 minutes as amended.

-Second to the motion by Member Lockhart

-Member Goldstein abstained

Approved: Chairperson Echols; Members: Bruton, Coleman, Lockhart, Milligan, Morgan, Zerbe

Motion passed

2. **MINUTES FOR APPROVAL**
(Continued)

MOTION:
MEETING MINUTES – 05.27.14

MOTION: Member Morgan made the motion to approve the 05.27.14 minutes as read.

Second to the motion by Member Lockhart.
Unanimous approval by the Board.

A. Coleman arrived
9:18 am

3. **2nd QUARTER 2014 INVESTMENT PERFORMANCE** Ian Janecek/Scott Arnwine - GAVION

Ian opened the presentation by distributing for information three (3) handouts reference to Macro & Micro Review, Investment Performance Analysis; Attribution Analysis.

He directed the Board to the Performance presentation - **Pages 4/5** stating that performance is positive. However, he pointed out that on page 4 – **Performance Summary** Eagle and Advisory are under performing with Eagle at 5.3% vs. 7.1% last year and Advisory at 5.2% vs. 7.9% last year and are 2-3% below returns.

Ian directed the Board to **PAGE 2 / 3 Asset Allocation vs. Target & Cash Flow Summary**. He commented that consumer discretionary has slowed down; credit card borrowing has lessened; and this is promising higher consumer confidence.

PAGE 2 – ASSET ALLOCATION VS. TARGET – AS OF JUNE 30, 2014

	Policy Range	Policy	%	Current	%	Difference	%
EQUITY	20-65%	\$47,560,906	50.0%	\$60,067,570	63.1%	\$12,496,664	13.1%
FIXED INCOME	15%-80%	\$38,048,725	40.0%	\$27,404,827	28.6%	-\$10,643,898	-11.2%
ALTERNATE BONDS	0.0%-15.0%	\$9,512,181	10.0%	\$7,652,238	8.0%	\$1,859,943	-2%
CASH	0.0% -0.0%	\$0	0.0%	\$7,177	0.0%	\$7,177	0.0%

The presentation entitled: Attribution Analysis – Period Ended June 30, 2014 summarizes the total Equity Analysis as:

Energy Opportunities Capital – 3.4%
Eagle Capital Management – 36.0%
Westfield Capital All Cap – 31.8%
Advisory Research – Small Mid Cap Value – 28.9%

The handout entitled: **Macro & Micro Economic Review Page 2 - The Domestic Consumer Balance Sheet** – Total Assets: \$95.5 trillion; with Homes at 24%; Other Tangibles at 6%; Deposits at 10%; Pension Funds at 21%; Mortgages at 68%; Car Loans @ 7%; Student Debt at 9%; Revolving Credit Cards @ 6%/Non Revolving at 1%; Other Liability at 9% -
TOTAL LIABILITIES AT \$13.8TM

3. **2nd QUARTER 2014 INVESTMENT PERFORMANCE** Ian Janecek/Scott Arnwine - GAVION
(Continued)

Ian pointed out that consumer discretionary has slowed down; credit card borrowing has become less and this seems to be promising higher consumer confidence.

MACRO / MICRO ECONOMIC REVIEW PRESENTATION:

Ian directed the Board to:

PG. 15/16 – YTD - DOMESTIC EQUITY RETURNS (By Sectors)

He pointed out that Utilities are not showing a lot of growth but have potential at 18.7% YTD.

Page 3 - Ian pointed out that home prices have rebounded and the market is improving but has not approached the highs seen in 2007.

Page 4 – Ian stated that growth profile reference to autos has been delayed but is in progress due to old cars replacements; but noted that Westfield has benefited on increased car sales.

Page 5 – Durable & Non-Durable – Food Services Sales – are in and above 4%. In 2014 they fell below 4% due to weather conditions and in the 2nd quarter were at approx. 4%. Consumer balance sheet is strong.

Page 6 – Average Hourly Earnings – currently running at 2.4% positive returns.

Page 7 – Earnings per share – S&P 500 are strong at 27.32 per share - profit margins are the highest since 1960.

Page 9 – Corporate cash is at 32% - incredibly high with “a lot of cash on the sidelines”.
Bottom right chart – will see increased dividends and buy-backs.

Page 10 – Gray area

PGE 11 – Q-1 negative – risk return potential – replacement for durable goods & job potential.

Page 13 – Added M2 & MZM charts representing cash, deposits, CD's, & money market. Very high level 12.5 trillion and can cause inflation with large amounts of cash on the sidelines.

At this point Ian turned the presentation over to Scott Arnwine for performance review.

Scott began with **Page 2** – Asset Allocation and he stated that all were within guideline and no violations. **Page 3** the beginning Total Net Value is at \$83,088,320 with an 18.4% return – very positive. He pointed out the performance is based on how it is weighted.

Page 4 - Market Value at 3 mos. is. - 95.1 – up at 3.7%; 4.4 – up in Total Equity; 5.2 – up in S&P. the Portfolio is underwt. due to Apple & Utilities **Eagle** – Oracle up less than 1% and under wt. in Energy. **Advisory** is up 4.9% in the 2nd quarter.

Ian commented that 2012 bounced back in excess of the benchmark. Ian pointed out the M&A charts and noted that they are keeping an eye on it.

Scott continued reference to **Westfield** – just underweight. But then down in the quarter. **Energy Opportunity** is the top performer – Oil. **Fixed** is up 2.1%; **Aggregate** is up 2.0%; **Orleans** is a bit ahead. **Victory Alternatives** is up 4.5% and an absolute top performer. Intel did well.

3. **2nd QUARTER 2014 INVESTMENT PERFORMANCE**
(Continued)

Ian Janecek/Scott Arnwine - GAVION

Ian stated that there is the need to lock in on gains by investing more into Advisory he recommended the need to provide market values and how to rebalance and invest into Victory. Member Lockhart questioned the need to keep fixed income? Ian responded yes. The target would be 40% to maintain and convert to Victory. Member Coleman asked why bonds vs. equities?

Ian responded that should you hold the bonds until maturity you can regain any losses and fixed income is 100% protection. Equities have a lot of volatility and you can lose all of it. Member Milligan asked if the Board should take out Eagle and Westfield and leave energy alone? Ian replied yes. Member Zerbe asked if we do go over the top do we have thirty (30) days to withdraw? Ian replied that there is a two (2) year remedy period and you would not be in violation. He added that you should reduce from 63% to 60% exposure in equities except for energy (Orleans) – to alternative equities.

Chairperson Echols called for a motion.

MOTION: REBALANCE OF EQUITY FUNDS

Member Milligan made the motion to rebalance the equity per the recommendations by GAVION but leave energy.

Second to the motion by Member Zerbe

Unanimous by the Board.

Chairperson Echols questioned Ian reference to the Attorney ruling on mutual funds in our plan. Ian has reviewed and stated that it doesn't affect the City of Marietta at all and the stocks in your plan are not mutual stocks. Attorney General code views mutual funds to be a violation. Unfortunate and is really a disadvantage. He added that the Attorney General has stated not to worry but the code does need to be fixed. Legislature assured that at the next session it would be fixed. Ian commented that there is much ado about nothing and reassured the Board that the City has no mutual funds.

Chairperson Echols stated that an Article has been published and he would like for Ian to read and review and report back to him. Jackie Deckman added that there is nothing to apply to the deferred 457 plan and it does not apply to mutual funds. Chairperson Echols thanked Ian & Scott for their presentation.

They thanked the Board for their time and left the meeting at 10:02 am.

Council Coleman

Left @ 10:02 am.

4. **2nd QUARTER PERFORMANCE**

Jackie Deckman - PRINCIPAL

Jackie asked that the Board take the handouts out of the back of the presentation package for review. She wanted to ensure that the Board understood how Principal is paid for their services.

Councilman Coleman

Rtn. @ 10:04 am

4. **2nd QUARTER PERFORMANCE**
(Continued)

Jackie Deckman - PRINCIPAL

She provided the following handouts:

- Total Cost Benchmark
- Retirement Plan Fee Summary
- Investment Options

Total Cost Benchmark shows that Principal is to be paid 30% for recordkeeping services and 22% Revenue is retained by the Investment Provider. The total cost is based on the Retirement Plan Fee Summary as of 08.04.14.

Coleman left @10:12

Rtn 10:14 am

Jackie began her presentation by stating that "Bigger is Better" – large cap is better than small cap. S&P 500 is at 5.23 and Small Index at 2. The International stock is a merging market at 6.60 for the quarter and is a real change.

Coleman left @10:15

Rtn 10:17 am

Harbor was of concerns but now has shown a real turn around. Utilities tend to be light. The last day of June is the 5 year anniversary of the rally....spirit of anticipation adds energy to the market. Unemployment is now at 6% Nervousness tends to play out during the reality of a recovery so there could be some bumpiness during transactions. She stated that there is no need for fund changes at this time.

All funds are quite good at the 3 & 5 year performance so no changes at this point. The hottest fund is **Pg. 35 Dodge & Cox – Fixed Income – Intermediate Term Bond -7.35** since inception and continues to do well – no concerns.

Harbor International – Foreign Large Blend – is back on track and doing well.

Fidelity – Mid-Cap Blend – is holding up quite well.

Other investments that are not doing quite as well – and showing modest returns are on small cap.

Page 31 - MFS VALUE R3 Fund- Large Value – quite heavy consumer discretionary; light on peers/utilities – underperforming but the 3 / 5 year numbers are still good.

T. ROWE PRICE – Large Cap – very bullish

J.P. MORGAN – Smallest of the small cap

ClearBridge – Small Cap – Mild Return – 57% to tech companies – stock picks play a role in these returns.

Harbor – Large Blend – is doing fine.

LifeTime funds – all are holding up well – long term numbers justified to continue to watch but take no action at this time. – **Page 41**

Page 30 – Brought attention to the Fixed Income number that did come down a little – introduction of target date funds and education programs has been making incremental changes.

4. **2nd QUARTER PERFORMANCE**
(Continued)

Jackie Deckman - PRINCIPAL

Jackie expressed her concern that education needs to be emphasized on fund distribution. Member Milligan commented that since everything is stable we need to make the effort to get people educated. Need to know how to access accounts is of utmost importance.

She added that the first year of employment will give the most impact on new employees. It was agreed that the City needs to get employees to become involved and to participate. Jackie will start to work on it to be prepared for Open Enrollment. Just fyi – she added you can make changes on smart phones.

Chairperson Echols asked Jackie in reference to Page 3 is there any statistics that we can compare to other plans? Jackie directed to go to page 10 – 254 employees have logged on to the system 1/3 have logged on but it is the low side. Jackie suggested that the focus be on small groups.

She thanked the Board for their time and left the meeting at 10:40 am.

Chairperson Echols recognized Sam Lady's request to leave the meeting at this time to attend a GASB COURSE that begins at 11:00 am.

Sam Lady left
● 10:41 am

5. **AMENDMENTS TO THE CONSOLIDATED & SUPPLEMENTAL PLANS TO COMPLY WITH IRS NOTICE 2014-19** SHANNON BARRETT

Patti Keesler, Benefits Attorney, has prepared information for the Consolidated Plan and Supplemental Plan. The information was provided to the Board Members – code changes in red text were also included. ARTICLE 4-12-6 EXHIBIT B TO CHAPTER 4-12. Definition of Spouse Wherein the code it would be new.

MOTION:
CONSOLIDATED/SUPPLEMENTAL PLAN
SECTION 30 – SPOUSE

MEMBER ZERBE made the motion to accept the motion as read by Ex-Officio Secretary Shannon Barrett.

Section 30. SPOUSE

"Spouse" shall mean the person to whom the Participant is legally married under the laws of the State of Georgia, except that, effective as of June 26, 2013, for purposes of Article V section 7 (relating to minimum distribution rules under Code Section 401(a)(9) and Article XII section 8 (relating to rollovers) ONLY, the term 'spouse' shall include the person to whom the Participant is legally married under the laws of the jurisdiction in which the marriage was performed (including same-sex individuals). Spouse shall not include domestic partners or other similar relationships that are not denominated as marriage."

Second to the motion by Member Coleman
Unanimous Vote by the Board

RETIREMENT APPLICATIONS

SHANNON BARRETT

- a. Kenneth C. Eilerman – Consolidated Plan, Early Retirement
Single Life Benefit. Effective 07.01.2014. Monthly Benefit \$255.10
Employed 04.09.2007 – 06.30.2014, 7 years, 2 months
City Service Worker I – Public Works – Streets Department
- b. Jo Ann Louis – Consolidated Plan, Normal Retirement
Single Life Benefit. Effective 07.01.2014. Monthly Benefit \$792.39
Employed 11.30.2000 to 06.30.2014, 13 years, 7 months
Administrative Assistant II – MIS Department
- c. Deborah A. Duncan – Consolidated Plan, Unreduced Early Retirement
Single Life Benefit – Effective 08.01.2014. Monthly Benefit \$2,356.66
Employed 04.04.1988 – 07.31.2014, 26 years, 3 months
Administrative III – Police Department

**MOTION:
APPROVAL OF RETIREMENT APPLICATIONS**

Member Bruton made the motion to approve the applications a thru c as read.
Second to the motion by Member Morgan.

Unanimous by the Board.

Secretary Barrett also informed the Board at this time that Nancy Cheshire's retirement certification remains as disabled. Doctor reports indicate that her status is disabled.

Ms. Carson is to come back in February/March (every 2 years).

NEW BUSINESS

Member Goldstein stated that as there are no Mutual Funds in our Pension Plan, so there is need to discuss further the ruling reference to Mutual Funds.

Member Lockhart brought up the subject of the "DROP" program. General discussions were held reference to the topic as to regulations & procedures for employee to retire and return to work. It has been based on a program relating to Fire / Police employees. There were a lot of questions as to the procedures and it was agreed that Cavanaugh & MacDonald should be present at the next meeting to discuss this further. Member King stated that there is a lot that goes into this type of program and we need to do more research and then add it to the agenda.

Member Lockhart offered to call Columbus, GA, as they are currently using the program. Member Milligan and Barry Echols will call Ed Cavanaugh. Chairperson Echols suggested that this topic be brought back after further research.

7. **NEW BUSINESS**
(Continued)

Chairperson Echols reminded members of the upcoming 09.23.14 GAPPT meeting/workshop.

MOTION:

GAPPT WORKSHOP MEMBERSHIP FEE

Member Coleman made the motion to approve the GAPPT Workshop Fee of \$109.00 per Pension Board Member. The fees are to be paid by the Finance Department – Sam Lady.

Second to the Motion by Member Lockhart
Unanimous by the Board.

Next Pension Board Meeting is to be held Wednesday, November 12, 2014 at 9:00 am
4th Floor Conference Room.

MOTION:
ADJOURN

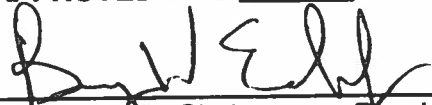
Member Milligan made the motion to adjourn at 11:05 am.
Second to the motion by Member Goldstein

Unanimous by the Board

PENSION BOARD MEETING

Wednesday, August 13, 2014
9:00 AM – Fourth Floor Conference Room

APPROVED THIS 12th **DAY OF** November, 2014



Barry Echols, Chairperson, Pension Board

ATTEST:



Shannon Barrett, Secretary, Pension Board